Management Accounting Practices and Discourses Change:

The role and use of Management Accounting Systems

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Abstract

This paper aims to trace the development of management accounting systems (MAS) in a Portuguese bank, where an activity based costing system (ABC) has been trialled for implementation over the past few years, as a means to improving the economy, efficiency and effectiveness of employee activity. This initiative can be located in a wider cultural change in Portuguese banking towards global (i.e. US derived) strategies and processes, but within an organizational world where older traditions remain powerful. The research undertaken here is a longitudinal case study of organisational change in one institution based on a critical-interpretive model. Although drawing on the interpretive tradition since it is concerned with actors' perceptions, interpretations and beliefs, it also draws on a more historically focused Foucault-inspired critical framework of the kind developed in the work of Hoskin and Macve (e.g. 1986, 1988, 1994, 2000), and in the research into the financial sector undertaken by Morgan and Sturdy (2000). The particular model developed here is designed to enable the exploration of the effect of accounting practices on change across time from three perspectives – changing structures, changing discourses and the effect of both of these processes on power relations.

The research highlights the increase in visibility and perceived importance of accounting in the banking sector, and how accounting is significant beyond its technical roles. The study provides new insights into how management accounting practices, along with other organisational systems, play an important role questioning, visualising, analysing, and measuring implemented strategies. As the language and practice of management have shifted towards strategy and marketing discourses, patterns of work, organisation and career are being restructured, in often under-appreciated ways, by accounting practices.

Keywords: implementation of change, activity based costing, financial services, case study.

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1. Introduction

This paper conducts a longitudinal case study that traces the implementation of an activity based costing (ABC) system in a Portuguese bank. There are previous studies, undertaken in the financial services sector in Europe, which have focused on the relation between management accounting systems (MAS) and organisational change. The study by Cobb *et al.* (1995) used Innes and Mitchell's (1990) factorial model to study a UK-based division of a multinational bank. Soin (1996) also studied the change process in a UK clearing bank by drawing on Laughlin's (1991) theoretical framework and later (Soin *et al.*, 2002) on institutional theory (Burns and Scapens, 2000). Euske and Riccaboni (1999), using institutional theory (Fligstein, 1991), studied how an Italian bank managed interdependencies to meet a new environment. Norris (2002) carried grounded theory case studies in the implementation and usage of ABC in two UK Banks to identify factors related to implementation success. Nevertheless, there is still space for empirical research in other contexts, and other forms of interpretive approach, to make sense of the critiques (and their limitations) and to better understand the nature of management accounting practice (Hopwood, 1983; Kaplan, 1984; Scapens, 1990). The study here makes its contribution, by integrating interpretive and critical theory and using this integrative model in a non-English-speaking context to a critical understanding of accounting-based initiatives, as they develop in a range of new cultural contexts. It looks to build on the recent trend in accounting research to investigate the role and function of accounting practices on management practice and discourse.

The paper looks to the changing banking context in the Portuguese financial services and how managers undergoing change use internal accounting system tools to facilitate the change process. The key research questions are: 'what were the dynamics around the ABC proposal as its implementation proceeded, and what roles do (and can) MAS play in the organisation?'. To answer these research questions, a qualitative research design has been adopted, and a longitudinal case study approach, based on a Foucault-inspired critical framework of the kind developed in the work of Hoskin and Macve (e.g. 1986, 1988, 1994, 2000), and in the research into the financial sector undertaken by Morgan and Sturdy (2000). Such an approach is concerned with how far accounting practices (and their underlying procedures, deploying writing, examining and quantification processes to render entities and individuals accountable) have change effects, both anticipated and unanticipated. The focus in this study was on changing structures, changing discourses and the effect of both of these processes on power relations.

The research can therefore be classified as a longitudinal case study of organisational change. But it is one which considers that the case should be understood not purely synchronically, in terms of the observations and interviews undertaken as the ABC implementation was unfolding, but also diachronically, locating these current events in a longer organisational and cultural past. It can also be seen as a descriptive/exploratory case, given the extension of analysis to a new cultural context. In this regard its objective may be taken as identifying possible reasons for the ways accounting practices change across time and space.

The paper has seven main sections. In the second section, the theoretical framework developed by Morgan and Sturdy (2000) is presented. The third section considers the literature on the development of activity accounting in the financial service sector. After the methodology section, the context in which the ABC system is being implemented, and also the implementation process itself, is analysed. Section six discusses the roles that management accounting play in the organisation, and section seven presents conclusions.

2. Towards a Theoretical Framework for Bank Sector Research

To understand the relations between MAS and organisational change, this research draws on a largely Foucault-derived approach into the relations between management practices and discourses developed by Morgan and Sturdy (2000), and applied by them to the financial services sector. They claim that organisational change can be studied from at least three different perspectives: managerialist, political and social (though for 'the social', one could perhaps read 'the critical'). The managerialist approach offers prescriptions and techniques to help managers engineer change and control. In this way, the change process is reduced to a technical task that can only fail because of a lack of ability or persistence on the part of managers. This approach has long been criticised, however, for its weak analytical framework for understanding how and why organisations change (Pettigrew, 1995; Molinsky, 1999; Morgan and Sturdy, 2000). In response, the political approach attempts to understand the change process rather than simply prescribe how to achieve change, with Pettigrew's (1987) work providing a significant advance in the study of organisational change. He criticises the 'acontextual, atheoretical and aprocessual' nature of mainstream organisational change literature (Pettigrew, 1987:655) and proposes that 'theoretically sound and practically useful research on change should explore the contexts, content, and processes of change together with their interconnectedness through time' (Pettigrew, 1990:268).

This is clearly a richer analytical approach than that adopted by managerialists. However, some critics have suggested that the political approach is not sufficient in practice. Here Morgan and Sturdy (2000:18) observe that even authors who adopt the political approach often 'find themselves drawn into an uncritical managerialist framework, whereby the politics of the change process is examined using essentially the same categories of understanding as the actors themselves (which are invariably managerial)'. They therefore propose a 'social' or 'critical' approach which examines the 'languages, concepts, categories and their associated practices which actors adopt to make sense of, construct and act in the world' (p.18). This approach can be termed 'critical' since it is based in contemporary European critical theorising, and in particular, the work of Michel Foucault. The term *discourse* is used here in the pioneering sense used by Foucault, with a focus on the 'range of things said' at any given time in a particular 'discursive field', and on the ways in which such 'things said' are the product of particular practices of communicating, learning, coordinating, controlling and so on – practices of inclusion and exclusion.

The approach that Morgan and Sturdy (2000) articulate follows on from Foucault and the work just cited as arguing that we are, as historically situated beings, always already within discourse, as we begin as actors to explain ourselves, our actions and organisations to ourselves and others. In the third person,

> '[b]odies of knowledge are constructed which are often transmitted and translated by organizational participants into routines and procedures which, in turn, constitute or contribute towards the construction of new or adapted knowledges and practices. These

bodies of knowledge become languages through which people speak about and understand organizational processes' (Morgan and Sturdy, 2000:18-19).

In this process, there are always principles of exclusion, reducing almost to zero the likelihood that certain things will be said – the principle of prohibition – the view of certain things as 'mad', but also as Foucault observes (1981:55), a 'will to truth' resting on institutional supports, pedagogy, libraries, learned societies and laboratories. This excludes certain possibilities as unlikely or implausible, leaving only certain other possibilities as 'acceptable understandings of the world'. This critical approach can offer a new range of insights to how dominant forms of 'true organisational discourse' (e.g., concerning strategy and change) are constructed, insights that can complement and yet extend those offered by such approaches as institutional theory, psychodynamic theory or Marxism (see Hoskin, 1994, for a positive view of how Foucauldian work can complement Marx).

Here the objective is to apply the Morgan and Sturdy approach not just to the bank but to the roles of accounting in banking specifically. Their study looked to the banking sector as a whole (not an organisation) and they did not studied accounting discourse, but only strategy and marketing discourses. This study draws on Hoskin and Macve's identification of certain secondary practices as being at the heart of accounting and management (sc. writing, examining and grading) and looks to see how far such practices do shape the discursive field of modern management (cf. Hoskin and Macve, 1994).

Organisational and economic contexts are increasingly seen by key managerial actors as complex and uncertain. The days of management as a science that imposes order through the exercise of certain essential truths have gone. One development has been the articulation of new and sophisticated discourses that are perceived to re-establish a sense of stability and control. Insofar as they succeed in constructing the business world's complexity in their own image, they establish the truth of their presuppositions. Such new managerialist discourses include strategy and marketing, and, while their significance needs to be recognised, their strengths and weaknesses also need to be comprehended in developing a critical-interpretive understanding. Here Morgan and Sturdy (2000) again offer some initial steps towards such an understanding.

Strategy has emerged over the past two generations as a dominant top-management discourse for looking at the world, making sense of complex futures and offering a form of rational control over contexts. 'Strategy has become the main language through which actors make sense of, respond to and thereby help realize changes. It has become an over-arching framework for actors and organizations, providing a language of 'truth' to make sense of the world' (Morgan and Sturdy, 2000:122). Strategy typically generates a set of neatly co-ordinated (and often picturable) frameworks that assist the process of deciding and implementing specific strategic plans. Strategy complements these closed systems of planning-based control with a series of objective techniques to measure performance, tracking it against strategic goals and providing feedback. Management consultants now play a key role as the carriers and interpreters of strategy discourse, offering 'tailored' and 'practical' solutions, 'self-reliance', and the development of political skills to draw upon when conditions of stability are being undermined (Morgan and Sturdy, 2000).

Strategy thus establishes a crucial link with marketing discourse, which has emerged as a key way of connecting the coordinated and managed inner context of the organisation with the less manageable, fluctuating outer context. Competitive pressures have increasingly forced companies to address better the needs of consumers. Marketing provides mechanisms for understanding consumer needs, for segmenting them, and designing products and offers that exploit the relative efficacy and efficiency of particular distribution channels. This last step is crucial because meeting the needs of customers is only relevant and valuable so long as it can be done profitably. This creates tensions within marketing. At the same time, it drives marketing into the arms of strategy as it is forced to focus on identifying potentially profitable consumers and/or selecting profitable products or services. Much marketing activity concerns the avoidance of competition and the dominance of markets, that is, 'marketing benefits the firm not by satisfying customers but by establishing quasi-monopolistic power over them' (cf. Whittington and Whipp, 1992:54).

This work ensures that the significance of such discourses can be recognised and appreciated when tracking the dynamics of change in the fieldwork process. At the same time, a Foucault-based approach does not look to privilege these discourses uncritically. In a sense, the emergence of these new discourses is not new. It is purely a modern, formalised way of ensuring that the basic financial ratio between revenues and costs is maximised as far as possible at any given time and over time. The discourses say new things, but within a disciplinary frame of knowledge. Disciplinary expertise is required to enable maximisation, not least within a sector in which all players find themselves one that is populated by strategy and marketing experts and their knowledge. Any initial competitive advantage is 'competed away'. Meanwhile there is no departure from the distinctive focus of banking on the underlying revenue-cost ratio.

It is here that a new approach to understanding the role of MAS has something to offer. Even as strategy and marketing reach a mutually supportive position of *discursive* dominance, they continue to incorporate features of resistance. The critical literature on strategy indicates the extent to which strategy is a rhetoric of rationalisation, and even a logical contradiction in espousing rational planning (based on analysis of past events and trends) as a basis for succeeding in a future which will differ from the past both on probabilistic and logical grounds. In addition, what emerges when one considers what strategy and marketing focus on – revenue streams, profitability, return on investment, economic value added – is the centrality of accounting practices and numbers to the articulation and maintenance of these apparently dominant discourses.

3. Activity Accounting and the Financial Services Sector

The financial services sector is one that has developed dramatically on a global level over the past two decades. There has been a concentration towards fewer and larger entities both at a global level, with the growth of global capital and money markets, and in many countries at a national level as well. In this regard, the US has been a conspicuous mover of change, with the final revoking in the 1980s of 1930s laws, passed after the 1929 Wall Street Crash, setting regional limits to banking conglomerates.

One major outcome in the process of concentration, which has been largely prosecuted through merger and acquisition activity, has been an intensified focus on revenue generation alongside cost and manpower control in banks of all sizes.

There has been a search for more effective organisational forms to deliver these two objectives. Mabberley (1997:2) has summarised the situation as follows:

> '[m]arkets are becoming increasingly competitive as institutions fight for profitable business and technology and deregulation allows other organizations to enter the markets. The constraints on profits and the need to find new ways to improve performance and compete successfully in the highly competitive financial services industry creates a need for the ability to review existing performance in relation to the external environment and identify ways to improve revenues or refocus costs to ensure greater profitability in both the short and longer term'.

Banking is a sector where approaches like ABC, with its focus on making overhead costs visible, were always likely to be seen as attractive. This sector also recognises the significance of the critiques stemming back over a decade now, often summarised in the claim that conventional management accounting data is 'too late, too aggregated and too distorted to be relevant for planning and control decisions' (Johnson and Kaplan, 1987:1). The classic or traditional bank structure has depended on a separation between front office and back office staff, which has meant that the activity of the latter in particular has been difficult to allocate to specific products or services. Further, the traditional branch structure, where the local manager has been responsible for the local set of front and back office staff and has been the key point of contact for local customers, has reinforced the overhead problem, and the consequent difficulty in capturing the costs of products and customers. Hence the traditional cost management approach, found in many different countries, of concentrating on the total cost/revenue ratio as the best index of bank 'efficiency'.

This context has led Sephton and Ward (1990:29) to observe that the situation of financial institutions is very like that of manufacturing industry, with both showing the characteristics that should make adoption of ABC attractive, namely:

- 'highly competitive market;
- diversity of products, processes and customers;
- significant overhead costs not easily assigned to individual products;
- demands on overhead resources placed by individual products and customers not proportional to volume'.

They go on to highlight three areas where ABC can benefit financial institutions. First, it can calculate 'meaningful' product costs. Second, this can then help dramatically in analysing profitability and understanding cost behaviour as part of the strategic management project. Third, it becomes possible to develop more effective budgeting, forecasting and performance measurement systems in traditional 'overhead' departments. Since, as they argue, financial institutions' services do not have cost information requirements for external financial reporting or stock valuation, the major purposes for ABC introduction will be decision-making and cost control.

As managers are concentrating their attention on the costs that they can manage and beginning to link the cost/benefit analysis to the value chain, the potential for ABC to effect major beneficial change has therefore been seen as extremely promising. The ABC system

> 'leads to a better understanding of cost/resource management, emphasising the lag between spending and consumption by analysing the factors that cause the initial expenditure and monitoring the consumption of resources and capacity utilisation. It does not *control* the business, but simply provides information that influences the decision

> makers in the management process by providing indicators that demonstrate the cost utilisation within the organisation' (Mabberly, 1992:16).

In such ways, consultancy discourse came, in the early 1990s, to exercise a considerable fascination for the banking sector, both within the US and internationally. There was a considerable interest in the possibility of ABC adoption in the financial sector, and there were clear and pressing reasons why this should have been so. Survey-based research may leave unclear precisely what motives banks had when they decided to implement an ABC approach, but they can show us that there was a high adoption rate in the financial sector during the 1990s, particularly among larger entities (e.g. Innes and Mitchell, 1995; Innes *et al*., 2000). The reasons for such adoption may include the increasing competitiveness in the sector, or it may more simply be a result of a number of large organisations in the sector, all with the resources to implement substantial and costly change initiatives. Fashion and fad factors often lead to a 'follow-my-leader' adoption of new approaches, and the influence of consultants and practical 'how-to' guides in locations like the *Harvard Business Review* may have been significant too (cf. Mabberly, 1992, 1997). At the same time, it is important to recall that ABC was always going to present itself as a far superior way of managing costs and activities to traditional overhead-based MAS systems (cf. Innes and Mitchell, 1997).

4. Methodology

The case was undertaken in a Portuguese bank facing significant competition and reshaped by new discourses, particularly those concerned with 'strategy', 'marketing', and 'change'. It is a large family-owned Portuguese bank, whose foundation dates back to the XIX century. To observe agreements of confidentiality for all research activities the bank will be named as 'Banco Lusitano'. The bank was nationalised following the fall of the Salazar regime in the 1970s, but re-privatised in the early 1990s, at which point the original family regained control. This was part of a general privatisation of financial houses, and this economic shift led, as in other countries, to a greater focus on profitability, cost control and efficiency and effectiveness of client services than hitherto. In this respect, an old business culture (dating back before nationalisation, but artificially prolonged by it) was suddenly confronted with new economic demands.

Initial contact was made with the bank in January 1998 through the accounting department. The initial purpose was to negotiate access. The bank was willing to give generous access, with a full range of materials being made available (under the usual terms of confidentiality, where appropriate) and with interviews being granted with a wide range of relevant bank employees. The research is not time constrained in the sense that the conclusions are valid independently of the events. Nevertheless, it was carried out between April 1998 and April 2001, primarily within the accounting and organisation departments. In-depth, face-to-face, semi-structured interviews with key people in the bank formed an important source of information. Interviewees were selected on the basis of their position in key areas of the organisation or their involvement in the change initiatives that have occurred since re-privatisation, especially, the ABC project. The first stage of the main research was conducted during July and August 1999. It involved 22 open-ended interviews with members of the bank's central departments, and of regional and branch offices. The second stage was conducted between July 2000 and April 2001. The main data sources for studying the implementation of the ABC system were consultancy reports and memos, and 19 open-ended interviews (13 in July and August 2000, 4 in January 2001 and 2 in April 2001) with people involved in the development of ABC. These were contacts from the organisation department, accounting department, and externally the Consultant Company and the Information Technology Company. All interviews were conducted in Portuguese and most of the questions were asked in an open-ended fashion to enable interviewees to respond in their own words. Interviews lasted on average 75 minutes and were tape-recorded. In one case, the interviewee did not give permission for the interview to be taped so notes were taken.

5. The Research Case: Background and Issues

Before the 1960s, Portugal's banking sector was, like the economy in general, relatively underdeveloped. During the half-century of corporatist dictatorship (1926-1974), the state played a custodial role and gradually influenced every aspect of economic, political and social life. It ensured a stable economic context but considerably reduced flexibility and innovation. After the revolution in 1974, the change to a democratic regime was not accompanied by a transformation in terms of the state apparatus. The large state sector became associated with the 'conquest of the revolution', and the 1976 Constitution assumed a highly interventionist role of the state and approved the irreversibility' of the large nationalised sector. Corkill (1999:56-57) maintains that

> '[u]nder state control, the public enterprise sector performed poorly, turning in large operating losses, voraciously devouring public subsidies and ensuring that productivity increases remained stubbornly low. A large public sector did serve to preserve the infant democracy's social achievements but, by placing political and social priorities before commercial considerations, great stains were imposed on the productive structure and on the public finances'.

The state played a dominant role while the financial sector was in this situation, and the Bank of Portugal acted as the crucial mediator between the state and the financial institutions. As a result, there was a strong discourse of regulation and hierarchy, rather than of markets and competition.

In 1985 the state started a progressive deregulation process that changed some of the rules of the sector[1], characterised by new entrants, plus a gradual but long-term move towards merger and acquisition activity, and the expansion by all major participants into a wider range of investment banking, insurance, leasing and other lines of business. By the 1990s the relatively protected and regulated Portuguese banking sector had begun to change more rapidly, with the result that the previously highly protected banks are now competing with new institutions and have become part of the progressively integrated European market for financial services.

Portugal's accession to the EC, favourable external factors (e.g., falling oil and raw material prices, declining interest rates, and economic aid from Brussels), and the

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[1] The Stock Exchange was modernised, and trade in new money market instruments was sanctioned. Legal authorisation was given for the establishment of domestically and foreign-owned private banks, and their number multiplied quickly. Credit ceilings were abolished for commercial banks, and the public sector banks that had been nationalised were now privatised.

political stability provided by the first single-party majority government, gave the opportunity to change the country's public institutions and structures. Privatisation began to reduce the size of the public sector, starting with the financial sector – 89 per cent of the financial sector was state-owned in 1989 compared to just 15 per cent in the manufacturing sector (Corkill, 1999). The financial sector again became a major source of investment and interest for the leading private groups, many of them being continuations of old groupings. In the initial phase of liberalisation, the activity and profitability of the financial sector increased significantly. In the early 1990s, the banking sector was contributing 8.5 per cent to GDP, a comparatively high percentage as an international comparison. However, profit margins have now fallen back, even though activity remains high, as the market has filled up with participants competing in both domestic and foreign markets, chasing lower costs and higher market share. Credit ceilings were abolished and the European Union II Banking Directive was adopted, which 'led to full entry liberalization, as far as branches of EU credit institutions and the cross-border provision of financial services by EU credit institutions are concerned' (Ministry of Finance, 1998:43). As the 1990s progressed, new financial conglomerates were created. These included banks, finance companies and insurance companies. Foreign banks, particularly from Spain increased their presence. Nevertheless, the state still is a very important player in the sector, especially as it continues controlling, either directly or indirectly, the most important financial group in the country.

5.1. Banco Lusitano

In the 1990s the bank was re-privatised and the Lusitano group (the financial group of the family which had controlled the bank prior to its nationalisation in 1975) obtained a 50 per cent voting control of the bank shares and of the bank board of directors (Pohl and Freitag, 1994). The bank's owners were therefore looking for competitive advantage in the new economic climate for the Portuguese banking sector, and looked to such internationally adopted innovations as diversification of services and growth through merger and acquisition – all designed to maintain a healthy balance sheet and profit and loss account. The pursuit of these goals has continued up to the present, and Banco Lusitano has secured its position as one of the country's leading banks, with a wide range of overseas interests. The bank has set up subsidiaries and representative offices in cities where there is a significant Portuguese community, and has entered the Spanish and Brazilian markets.

After the bank's return to the private sector, the new board of directors began the restructuring of the equity holding portfolio. The bank would act as the co-ordination centre for a global financial group, around which would be assembled operating units specialised along product lines and devoted to the extension of high-quality financial services, aimed at their own specific market and business segments. Prominent in the group are those units more directly dedicated to financial services (e.g. banking, insurance), but also there has been an expansion of those units arising from the bank's restructuring process (e.g. outsourcing units), or whose purpose is the extension of ancillary services in the financial area (ancillary service units and subsidiaries whose purpose is limited to acting as finance vehicles). The financial group covers a range of business areas ranging from banking to property and equipment leasing, insurance, factoring, investment and pension fund management, credit cards and stock brokerage, among others.

5.2. Change Initiatives

Since the bank was newly committed to profitability and cost control, one major concern that began to emerge, and remained a high priority across the 1990s, was over the head-count. Naturally this was not necessarily something that the bank's top management wanted to broadcast; but from 1992 there were a number of initiatives undertaken, with the help of leading consultancy firms, where in retrospect it can be seen that a major objective was a reduction in the head-count and, associated with that, an improvement in the cost to income ratio (operating expenses/banking earnings). With the growing adoption of internationally used financial performance measurement systems, this ratio increasingly became a major concern to banks and to financial sector analysts as a proxy for efficient and profitable operations. According to a bank report, in order to increase profitability, market share and productivity,

> 'the Bank has sought to strengthen its position within the Portuguese commercial banking sector by (i) increasing the penetration of its existing client base through enhanced customer service, (ii) substantially expanding its commercial banking network to accommodate increasing demand and ensure adequate marketing capabilities and (iii) consolidating its existing operations in an effort to control expenses and boost productivity' (Annual Report: Form 20-F, 1997).

The bank was determined to increase revenue but simultaneously to cut costs, which would require a leaner structure. Consequently, the bank undertook a series of 'commercial reorganisation' and 'efficiency-focussed' projects. The largest projects were the rationalisation carried out in the branch network (the Excellence Project) and in the central departments (the Efficiency Project):

> 'On the organizational side, we draw attention to the rationalization carried out in the branch network (the Excellence Project), and in the central departments (the Efficiency Project), as also within internal services (Complementary Grouping of Companies), while at the same time we intensified the process of horizontal and vertical communication between the Group management structures, with particular emphasis on the travelling executive committees and the Group conferences. At the same time, we took some important steps towards modernizing the new information system, with some of its modules now in operation' (Report and Accounts, 1997).

In addition, there were projects reviewing commercial banking, best practice, and information technology. Over the same period, the head-count was reduced from approximately 6,325 in 1992 to 4,962 in 1998, while the cost to income ratio improved, from 67.7 per cent in 1995 to 57.5 per cent in 1998. The bank's efficiency also improved substantially over the period, with total assets per employee increasing from PTE 465 million in 1995 to 918 million in 1998.

As these change initiatives were taking place, and the implications of the new structure became increasingly clear to bank employees, one consequence was a 'discursive shift', first in official documents, and then in the vocabulary adopted by managers (i.e. the range of things said and those not said). This can, in general, be characterised as a move towards a more internationally recognisable kind of 'financial management' phrasing and vocabulary. Terminology stressing profitability, unit cost reduction, quality, rationalisation and radical change became widespread, whereas before this such terminology had been rare. Thus, in the Report and Accounts for 1997 we find such observations as the following:

> ‘The plans for change are clearly coming together, as on the one hand we increase our ability to generate business and hence earnings, and on the other hand, as we reduce our unit costs of production’.
>
> The Excellence Project was put into operation with the aim of improving the quality and competitiveness of the Group’s services, ‘directed mainly toward the distribution network, the segmentation of our clientele, and adapting the customer service to that segmentation’.
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> The Efficiency Project was ‘designed to reduce transformation costs through slimming down the logistical support services, to reduce costs and redesign processes, bearing in mind the changes introduced by the NISI’. With the Efficiency Project ‘we simplified, rationalized and redesigned the circuits, and automated and centralized processes, while linking Group companies more closely to the process of monitoring customer satisfaction on a continuing basis’.
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> The NISI was ‘designed to make radical changes in hardware and software, in order to respond to the needs of running the organization in an up-to-date way’.

As the process of organisational and discursive change has gathered momentum and been maintained now for the best part of a decade, bank employees have not been slow to realise what has been happening. Some of this has followed as a natural consequence of a change in personnel, with new people entering who buy into the new discourse more automatically. But additionally those who have stayed on have embraced the new kind of discourse and the practices that go with it, while they have also had to accept that there is an increase in job insecurity under the new more ‘competitive’ regime.

Unsurprisingly, there has been a considerable increase in suspicion of the motives of top management when initiatives promoting ‘improvement’ have been set up, particularly among older employees. At the same time, a new spirit of competitiveness has begun to be disseminated at the everyday level with the setting of targets, both financial non-financial, e.g. with the framing of new objectives such as increasing the percentage of ‘high-value’ customers.

In this process, there has been some considerable reorganisation of the bank’s structure. In the mid-1990s there was a geographically-based reorganisation of the management structure below top management, with the introduction of regional divisions, and with a related focus on revamping the work patterns in branches, so that branches became more of a ‘one-stop shop’ for a range of services and the first point of call for most services that the average customer might want or be persuaded to consider. Separate ‘corporate banking’ and ‘private banking’ divisions were also set up for high net worth customers. Thus, strategy and marketing discourses became the accepted language through which senior managers articulated their decision-making processes and justified their outcomes. The following ‘key strategic messages’ from the Report and Accounts for 2000, are an example of these discourses:

> ‘To extend our client base and consequently our market share has at all times been an intermediate goal for the Group; the development of our presence in markets having affinities with Portugal was also a strategic vehicle that we have reinforced in order to meet this goal.
>
> Our commercial performance is therefore guided by the underlying objective of delivering maximum value to our customers, and based on a relational marketing approach and the continuous effort to improve efficiency levels. The increase in value generated is shared with the agents involved (employees, customers and shareholders), thus fostering an increasingly concerned and long-lasting relationship.

> At the same time and intimately connected to these guidelines, we note the initiatives taken to fully use the potential afforded by the new technologies, which provide a faster and more efficient means both for the communication between the Group and its customers and for carrying out transactions and business'.

This was not the extent of the change. To capture efficiencies, the IT function was outsourced (although it is not clear that this has been a total success). Certainly within the bank, many employees see problems, such as bottlenecks and lack of timely information, as due to the outsourcing of the IT function. The situation has not been helped with a changeover in the software used, which has sometimes led to 'black holes' in the provision of data to departments.

Thus, the 1990s were a decade of major transformation, with all the new opportunities and the associated problems that such transformation brings.

5.3. The Original Management Accounting System

The original MAS was largely budget-driven, supported by a system of objectives and incentives (SOI). The budgetary control system had been in place for some considerable time, and additionally was an evolved version of an older incremental budgeting system, which had been in place before the re-privatisation of the early 1990s. The evolved version includes a 'tableau de bord' where special attention is paid to certain key targets, especially return on equity and the cost to income ratio. An effort to motivate managers to strive to achieve the budget goals led to the development of a system of objectives and incentives (SOI).

The SOI was introduced initially only for the commercial area as a key means of inducing more effort to achieve goals (in order to receive associated rewards) and to guide this effort into directions that are valuable for the bank. It provided a monetary bonus for achieving short-term targets giving positive direction and motivation. The objective was to develop a greater competitiveness and commercial awareness at the 'sharp end' of the business, in the branches. The targets set (along with the potential incentives for success) are increasingly driving the activities of managers and employees in the branches. There is an increased focus on sales and short-term profit. Targets are related to commercial effectiveness (measured by the degree that commercial objectives are reached) and profitability (measured by business volume with standard margins defined by product). Profitability is assessed in terms of the evolution of cost to income, i.e. the cost to income ratio is compared with the ratio for the same period in the previous year.

A big problem that quickly emerged with the SOI (and one that had not been solved before the advent of the ABC initiative) was that the bank did not have the tools to calculate actual product margins. Consequently, since commercial staff can squeeze margins in order to do more business, and the system does not translate that through actual margins, the results reported can create a perceived unfairness in the attribution of performance rewards. As a manager from the commercial area put it:

> 'Profitability is just a volume effectiveness because a standard margin is used, which is totally mismatched; it should be the actual margin. Someone who does good credit management and practice interest rates above the bank's average, in terms of profitability

> is in the same situation as someone who squeezes interest rates. It is not a profitability measure; we should have combined the volume growth with actual interest rates'.

In 1999, a SOI was also created for central departments. Although benefiting from the experience in the commercial area, this system was difficult to set due to the different activities in the central departments, ranging from operative to logistics and support. Therefore the overhead allocation problem was posed particularly acutely. The provisional solution was to set four types of targets, each related to costs that were measurable, rather than costs that were relevant. First, efficiency targets were set measured in terms of workforce reduction and redesign of processes. Secondly, cost targets were set measured in terms of budget execution. Thirdly, quality targets were set, measured through a questionnaire to internal clients regarding the quality of service. Finally, commercial targets and the global effectiveness of branches were set, but only for the two marketing departments (strategic and operational). Along with this set of targets, the system required an evaluation of each individual's performance conducted by the senior manager of the department, which also affected the individual reward. In addition to the problems with the 'objective' reward system, this added a perception of potential subjectivity and unfairness in the attribution of rewards, while imposing significant burden of time and stress on those managers.

5.4. The Activity-Based Costing Project

The 1990s were a decade of major transformation, with many new opportunities and the associated problems that such transformation brings. It was in this context that an ABC initiative was suggested, influenced by the consultancy firm involved previously in innovations. The basic idea was that it should be piloted initially in one operational sector of the bank. Beyond the initial trial, which was due to begin in 1998, the intention was that, if successful, it should be rolled out across the bank as a means of further enhancing efficiency and effectiveness. It was not clear to many bank employees why they wanted to implement ABC. However, it appears that some managers were already voicing concerns about the lack of product cost information, and at the same time there was a strong price pressure from the increasing competition between banks, driving a perceived need to cut margins. There were also widespread concerns about the lack of 'information' for management (especially about profitability), the lack of comparability between information from different sources, and the lack of timeliness of the information that was available.

5.4.1. Pre-Implementation

The implementation of ABC was due to start in 1998. However the project was successively deferred during 1998 and 1999. There were various reasons advanced for this delay, including such factors as the currency switch to the Euro and the Y2K 'millennium bug' problem. In the context of the introduction of the new currency, the bank had to adapt its operations, especially in the information systems area. Although the new currency only entered into circulation in January 2002, January 1999 was identified as the benchmark for the Euro programme.

However, there were other more deep-seated reasons. It is obvious that there were power relations issues between departments, in particular the potential ‘turf’ struggle between the accounting and the organisation departments. By early 1999 it was clear that the latter department was in line to mount and co-ordinate the implementation of ABC, were it to go ahead, and this clearly precipitated a boundary dispute not only over who owned ‘accounting’ within the firm but also who owned the ‘significant’ accounting. A manager from another department summed up the dynamics of the situation:

> ‘There are two forces and two different interpretations of control, definitions of costs and information systems… that also has to do with the history of the bank. Till a few years ago the accounting department was responsible for planning, so they intervened almost in everything. Today, the bank is facing great change, which is not as clear as is desirable. It also has to do with an historical issue, let things run…’.

However, in the early stages, it was not clear whether or how far this potential conflict would materialise, since as the series of delays perhaps suggested, there was a noticeable lack of commitment to the proposal from top management, as a manager from the organisation department involved in proposing the ABC project observed:

> ‘They [the executive committee] know much about banking, they are bankers in the real sense of the word, but they are not too sensitive to efficiency. They have a feeling that control of efficiency is important, but as they do not know the basic concepts they are not too demanding in that subject’.

> ‘The administration wants to reduce costs and become a more efficient bank, but to do that it is necessary to change structures and processes. Although they want that, they are afraid of going too far in terms of change inside the bank. That is a constraint’.

5.4.2. Implementation

In January 2000 the bank decided to start the implementation of ABC. The formal reason was that ABC could be a relevant data provider for the Management Information System (MIS). The tender for service presented by the consultancy company eventually selected stated that Banco Lusitano had contacted them to help implement ABC as part of the MIS. The aim was to provide ‘more accurate costs, in order to manage profitability of products, customer segments and distribution channels. Additionally, it also permits the identification of potential improvements in terms of efficiency’ (Consultancy Reports: ABC Project). The consultants perceived that for the bank, the reduction of financial margins (spread) made it necessary to find new sources of profitability and gains in productivity. This meant searching for more profitable customer segments, developing new products, and using less expensive distribution channels.

Another important aim (the most important for the organisation department) was Activity Based Management (ABM) in order to reengineer business processes, particularly those that did not add value to customers. Control of cost had become a key issue in the bank and ABC was seen as a potential device to induce behavioural incentives to be more cost conscientious. ABC was perceived to be a ‘cost saving identification’ device. Complementary to these objectives, it also was expected to provide better information to help the budgeting process.

Potential conflict was initially deflected by appointing the two departments as formal co-sponsors for the project, with the accounting department in charge of developing the new MIS, and the organisation department in charge of reengineering processes. Nevertheless it was apparent that in key respects the latter was in a stronger position, not only in terms of being more in tune with the project but also in terms of the roles of people involved and levels of direct responsibility over the project.

At the same time, there was an extraneous reason why, after the earlier delays, top management saw the project as timely. This was because they were considering a potential merger with a rival bank. This suddenly provided a new reason why there was a felt need for a better understanding of the costs involved, in order to ensure the merger would be a commercial success.

Once this circumstance had raised top management interest, it appears that a more general interest developed in ABC as a promising method for assigning the bank's operating expenses to its varied products, customer segments, and distribution channels (in 1998, 52.3 per cent of the operating costs were not allocated to responsibility centres). One perceived attraction of ABC was the way its language centred on cost awareness and unit costs, and was increasingly seen to fit with the marketing-focussed strategy.

Consequently, the decision was finally made to bring in a consultancy company to implement the model in conjunction with internal staff. The system was developed in two phases. The first phase focussed on working in the branch network because it was technically easier to study their activities and they represented 43.3 per cent of the operating costs. Furthermore, it was easier to make progress with this research, because the organisation department had already undertaken an activity analysis in branches during previous reorganisation change initiatives. The second phase then involved the extension of the model to analyse activity in the central departments.

The ABC project was developed and implemented with a clear dependence on technical and consultancy expertise, but in a way that turned out in practice often to be very ad hoc. There were problems in estimating the level of top management support and enthusiasm. There were technical problems with the quality of information available. There were also lurking organisational problems such as the fear that this was just a new way of reducing headcount, and the potential turf war between the accounting and organisation departments. Consequently, the implementation process did not proceed smoothly. Many workers did not have a very clear sense of what was involved in working under an ABC regime, and the initiative did not always have the necessary support of key managers. Eventual resistance from the head of a department could induce managers from that department to be lukewarm or even obstructive towards ABC.

These are all clearly significant factors in making the ABC implementation process so difficult to manage and subject to delays. But one might also suggest that overall, when one looks at the complex nature of change in an organisation such as Banco Lusitano, the evolutionary four-stage model presented by Kaplan and Cooper (1998) was arguably too schematic and insufficiently contextually aware – too much a technical model that was not prepared to cope with the complexities of organisational dynamics.

5.4.3. The Activity-Based Costing Output System

The ABC system was developed as a stand-alone system that would interface with other systems to obtain the data it required (including the 'data warehouse'). Some of the data that were to be produced by the ABC system (e.g. standard unit costs by product, customer segment, or distribution channel) were to be fed into the data warehouse in order to obtain the expected MIS profitability models. The final structure for understanding costs articulated out of the ABC project is summarised in Figure 1. It can be seen that what the team had come up with was cost models for four separate areas of activity, which together produced an 'Aggregated Model'. There was one for the 'Commercial Network', another one for the 'Central Departments' and there was a separate model for the costs of 'Projects'[2]. Finally there was a model for dealing with those residual costs defined by Kaplan and Cooper as 'facilities sustaining', where there was no possible 'causal' relation to particular products or services, and where there had to be 'negotiated drivers', i.e. what traditional overhead analysis understands as the 'arbitrary' apportionment or allocation of costs on a judgement basis.

The other three models could, however, operate as 'causal' systems with three modules of analysis, concerned respectively with resources, activities and cost objects. Within each model, in standard ABC fashion, the expenses of each business unit were now collected into activities, and then, through the appropriate cost drivers, the expenses accumulated in activities could be assigned to products, customer segments, and distribution channels. The system arrived at what could therefore, in addition to providing a form of the three-dimensional vision of costs by cost object, provide data about costs by responsibility centre (including a breakdown into direct and indirect costs). It could also enable a cost analysis by 'activities' and 'processes'.

In terms of the first of these categorisations, there were three 'activity' levels identified: macro-activities, activities and tasks. The perceived pay-off from this form of categorisation was that, on this basis, a Porter-style 'value chain' could be constructed for the bank. These macro-activities could then be broken down at the level of a particular department into specific 'activities', thus encapsulating the core of the ABC philosophy. It was accepted, as the result of pressure from the organisation department, that analysis at the 'activity' level alone would be insufficient to capture the information necessary to run an effective ABM system, thus the need to have a further division based on tasks (or third-level activities) for central departments.

The perceived outcome of this whole process was that managers could now identify which processes were adding value to the customer and which were not, and how the efficiency of different processes could be improved. In addition to the focus on process improvements, the ABC team was able to produce detailed cost information reports on a range of other bases. So they identified approximately 40 products or groups of closely related products, eight customer segments according to the marketing strategy of the bank, and four business channels (branches, telephone banking, ATMs, and internet banking).

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[2] The ABC team decided to create a specific model to deal with IT costs and costs from other development projects which typically only produced benefits across several years. This was a particularly acute and pressing example of the general problem since such costs already represented 21.8 per cent of operating costs, and the trend of the previous few years was for these costs to increase in proportion, as the bank was becoming more technological.

Finally, given the way they solved the cost allocation problem in terms of the four models that made up the 'Aggregated Model', all expenses could be shown to have been assigned to the cost objects, since the residual indirect costs had been captured in the 'Costs to Allocate' module. The costs involved included accounting, human resource management, and other costs not directly related to any cost object, but which supported the bank as a whole, costs which in total accounted for 26.3 per cent of the bank's 1999 operating expenses [The 'negotiated drivers', as noted, remained an example of arbitrary or judgmental decision-making].

The identification of 'activities' and the attachment of costs to those activities was in large part not seen as problematic. But there remain questions about the traceability of many costs relating to property and other facilities, which were classified as business-sustaining or related to macro-activity facilities management and represented 18.1 per cent of the 1999 operating expenses.

Furthermore, when the staff involved in the implementation of the project took a wider view on what was 'really' going on, they often made comments to the effect that reported costs by cost objects 'do not reflect reality' as they seem 'unrealistically high'. One particular 'cause' fastened on to explain the 'distrusted numbers' was concern about accuracy in terms of output volumes. That is not to say that this was the real problem. The analysis above indicates that while this was undoubtedly an issue, there were a number of other significant problems and tensions in play. In addition, it is apparent that the IT company, as the outsider providing resources on an outsourced basis, was often a convenient scapegoat when things went wrong. Nonetheless, the overall conclusion has to be that, while a lot of work had gone in to the ABC project, and a lot of progress had been made, there were a lot of existing problems that had not been resolved, and perhaps some that had been exacerbated.

One may simply observe that the implementation model was characterised by an analysis of activity structure that was far short of ideal (both in terms of the number of activities identified and the understanding of the relative weight or significance of the various activities). It had developed cost 'drivers' to allocate costs to cost objects that for various reasons were approximate, and gaining less than total confidence, when the means for recording volumes of activities were not automated.

It retained a perceived potential to understand outputs in terms of costs by activities and so to enable a new quality of activity management (as ABM), generating a series of benchmarks enabling the optimisation of commercial structures and processes. It was also possible to read off from the final report submitted that the consultants envisaged the bank as being able to 'upgrade' the model over time. The vision remains that it would be possible to develop an activity analysis that would reflect how things did run (and should run), to identify the drivers enabling an 'exact' allocation of costs to cost objects, and to automate data capture systems that would accurately track the volumes of key activities. In that case it would be possible to have relevant unit-level costs by product, customer segments, and distribution channels, which coincidentally were the outcomes that the bank was initially looking for from the project.

The report recognises that achieving these goals would not be straightforward. It stresses that maintaining and upgrading the model would be 'complex and time consuming'. Maintaining the system and keeping it up-to-date on an on-going basis would require a significant amount of work due to the dynamic, changing nature of the organisation and a continuing need for collaboration and cooperation, even while there was a climate of potential conflict with turf battles ahead. There were two distinct but linked issues, which are captured in the following observation by one member of the consultancy team:

> 'At this moment, our concern from the organisation department's point of view is to update the structure, activities and times of the model. That allows taking advantage of the involvement in the ABC model of the remaining departments of the bank'.

In other words there was an information quality issue, since the department was largely using data from 1999, and by mid-2001 the structure of the bank, its activities and the times used to perform them had already changed, along with other data used in the model. But even if that issue was resolved, there was still the ongoing problem of the relations between the organisation and accounting departments. Beyond that, it was not clear what would happen to the project, since this depended on the importance that top management attached to it.

Consequently, the real impact and value of ABC was not clear, and as a result there were different levels of involvement in, and commitment to, the project. It appears that the bank departments involved, until the end of the implementation, did not discuss the uses to which the information would be put in any detail, and the contradictions between the positions held on the new system were evident to all involved.

6. Discussion

Strategy discourse can be seen, across the banking sector, as having helped to identify the need for organisational restructuring from the analysis and claims of marketing information and perspectives. The discourse of strategy engaged neatly with the neo-liberal political discourse of market freedom, as entry barriers within the financial services were dismantled. There was a sense of 'inevitability', as the country was required to meet increasing competition from other European countries. Within Banco Lusitano specifically, after its return to the private sector, there was a restructuring of the equity holdings portfolio. As the 1997 Annual Report states, looking back to that period:

> 'a global financial group was developed, in which [Banco Lusitano] would act as the control tower, around which would be assembled or created, operating units specialized along product lines and devoted to the extension of high-quality financial services, aimed at their own specific market and business segments.
>
> The Group's mission is thus to its clientele, both retail and corporate, a high degree of satisfaction appropriate to the market's ever-growing requirements in terms of information and sophistication' (Report and Accounts, 1997).

In such a strategy-infused discourse, management consultants are likely to be seen as key helpers, and thereby act as crucial carriers of the discourse still more deeply into everyday organisational reality. It is reasonable to say that Banco Lusitano implemented several change initiatives with the help of management consultants, where strategy has become 'the main language through which actors make sense of, respond to and thereby help realize changes' (Morgan and Sturdy, 2000:122). But at the same time, the kind of strategy just outlined, with its emphasis on satisfying its 'clientele both retail and corporate', and on offering this clientele a range of services both ‘comprehensive and specialised’, inevitably meant that marketing discourse became a key aspect of the emerging strategic discourse.

Again, the 1997 Report and Accounts bear this out, as the bank highlights the ‘fundamental aspects’ of its commercial strategy as (1) aiming to improve its knowledge of customers, (2) pursuing a multi-channel strategy, and (3) promoting awareness of the brand. Regarding the bases of commercial performance:

> ‘Since reprivatization, we have changed the traditional focus on products to one more oriented towards the client, with a strong emphasis on segmentation. At a second phase, we conceived the role of the segment manager in each branch for individual clients and for small and medium-sized companies. In a subsequent phase, we adapted the product delivery function to the segmentation process, enriching it with Group company products, made available through a network that was substantially expanded, remodelled, supplemented by alternative channels, to which better-qualified and versatile personnel were assigned’.

As competition increases and the environment changes, marketing inevitably becomes an integral aspect of the emerging strategic discourse and set of practices, even if there is still a strong influence of a sales orientation. Marketing provides mechanisms for understanding and segmenting consumer needs, for designing products and offers which analyse the relative efficacy and efficiency of particular distribution channels, and for overcoming the weakness of a sales orientation through designing products more related to specific customer needs (Morgan and Sturdy, 2000). The bank reflects this, in its claims that it

> ‘seeks to extend to its clientele a high degree of satisfaction by providing financial services that meet the market’s ever-growing requirements in terms of information and sophistication.
>
> Our commercial performance is therefore guided by the underlying objective of delivering maximum value to our customers, and based on a relational marketing approach and the continuous effort to improve efficiency levels. The increase in value generated is shared with the agents involved (employees, customers and shareholders), thus fostering an increasingly concerned and long-lasting relationship’ (Report and Accounts, 2000).

None of this is to say that this kind of marketing discourse is either natural, inevitable or even necessarily effective. At the same time, it flourishes through a process of ‘naturalisation’, e.g. through consultancy and routinisation (Morgan and Sturdy, 2000).

At the same time, there are some contradictions in terms of marketing discourse. Besides difficulties of specifying customer needs, meeting the needs of the customer only works as long as they can be met profitably, as a manager from the marketing department explains how he understands the importance of ABC for the bank:

> ‘activity-based costing will allow more accountability to each process. There are products that are very profitable and subsidise areas that are less profitable or even unprofitable. If we had reliable management information the correct decision would be to close those areas’.

This requires selecting profitable products and profitable customers, but in a market where everyone else is pursuing the same targets with similar marketing-led strategic approaches. So the business theory is easy. Kotler (1997), for example, claims that segments should be ‘substantial’ (profitable) as well as ‘accessible’, ‘measurable’ and ‘actionable’, with each market segment justifying exploitation in terms of return on investment. Gordon (1998) spells out similar implications in more detail.[3] In practice, however, first-mover advantages get competed away, and as more and more sectoral players follow the same prescriptions, there are sector-level effects, e.g. customers in general feeling that the banks are ‘all the same’, and that they are just the objects of uncaring marketing manipulation.

In sum, leaving aside general problems in contemporary marketing discourse (e.g. the rather patronising view of the ‘sovereign consumer’ as a passive, manipulable, rather undersocialised actor), competitive pressures on profitability and consumer inertia will have a range of sector-wide consequences, as organisations all shift their attention towards particular products and customer segments. In the segmentation model spelled out by Gordon, where options defined in accounting terms as ‘costly’ or ‘unprofitable’ options are selected out, the poorest groups in society are once again, but in a new way, marginalised within financial services.[4] Boyce (2000:650-651) neatly sums up how this is a product of a marketing perspective:

> ‘The implications of the use of customer valuation are immediately obvious from the marketing perspective, with the potential to selectively target promotional campaigns at “high value” customers, but the literature has been silent on other social implications including differential pricing and product and service levels to different customer groups, and downright exclusion of certain customers’.

But once again the way in which the sector-wide outcome is constructed at the micro-level of practices within each organisation can be read off: ‘valuation’, ‘high value’, differential ‘pricing’ and ‘product and service levels’ are all calculated, in each organisation, in each specific case, via accounting practices.

Not surprisingly, if one goes behind the upbeat claims made in the annual Reports, accounting practices can be seen as having this range of effects within Banco Lusitano. The focussing on segmentation and differentiation is implemented via the financial and non-financial performance numbers available, to enable the market-led strategy to operate. The discursive consequences then play out in very much the way just indicated.

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[3] Gordon (1998:40-46) suggests that organisations should ‘decide the customer mix and the level of resources to be committed to each customer’ (p.41). This requires that organisations know the ‘cost-to-serve’ of each customer to be able to obtain an integrated view of customer profitability. He claims that it is ‘appropriate’ to map customers according to their current and future profitability. Organisations should *reward and invest* in ‘ideal’ customers (profitable now and into the future) by assigning them the best staff, giving them more service time, providing access to new technologies, and rewarding them financially. Customers that are currently profitable, but potentially unprofitable, need to be *managed* to ensure the continuation of profitability. Customers that are currently unprofitable, but potentially profitable, should be *disciplined* either by changing the processes used to service them (cost reduction), or by charging them a fee. Gordon claims that ‘some customers are unprofitable today, will be unprofitable tomorrow and do not merit further attention by the company. Let them become someone else’s problem or opportunity. *Fire* them’ (p.46, emphasis added). Nevertheless, he stresses that ‘terminated customers, like terminated employees, should leave feeling good about the relationship in which both have invested but which, for whatever reason, no longer create the value now important to you’.

[4] Hooley and Mann (1988) claim that the selection of ‘profitable’ customers and the ‘selecting out’ of others can partially be attributed to managerial short-termism or the predominance of ‘non-marketing’ priorities within organisations. But if the question is then asked as to how that ‘short-termism’ and ‘non-marketing’ orientation is constructed, the answer that confronts us is ‘via accounting’.

So there are managers who recognise that not all customers are profitable and therefore the bank needs to identify them and take measures when appropriate. A manager from one of the marketing departments summarises the overall impact of the new marketing-led strategic discourse well in the following comments:

> 'The Excellence Project brought the vision that not all customers are equal. There are segments that are potentially profitable and there are others that have a marginal profitability almost null or even negative. It is worth using commercial resources, time and support sales instruments to some customers: corporate, private, and those with potential. While to others it is not worth to invest on them… we should try to manage them (externalise) in order to become profitable'

> 'The branch should be a sales centre and staff there should occupy the majority of the time in selling and advising customers. They cannot, as they do today, occupy most of their time with non-value activities. Certain operative and administrative activities should be automated. There is a bureaucratic activity load that should be externalised from the branches'.

> 'The bank has a credit project, that reports directly to the executive committee, to re-evaluate all credit processes, reorganise and simplify them. The project would permit more adequate pricing decisions according to the customer's profile'.

As one progresses through these successive comments, all from one interview, it is possible to see how far accounting has become implicated in this manager's discourse, at the heart of marketing-led strategy. How does the bank determine the 'non-equality' of customers in terms of profitability? Via some form of accounting metric (and this will be the case, regardless of whether in academic terms the metric chosen is of greater or lesser relevance to the task). How are 'non-value activities' to be determined? Via some form of 'activity' costing (and again this will be the case, whether or not a formal ABC system has been developed, as happened in Banco Lusitano with the SOI). How, once credit rating is fixed upon as a key feature of customer differentiation, does the bank achieve the two necessary requirements – the 'simplification' of the credit scoring process, and the relevant pricing decision for each product or service? 'Simplification' requires an adequate means of determining the relevant activities, and pricing requires an appropriate full product costing system. With those objectives now at the heart of discourse, a system like the old SOI one is increasingly likely to be perceived as 'inadequate'. The stage is set for ABC, or a system like it, to be embraced as 'the solution', particularly if there are consultants on hand to offer it.

In such ways we can see how accounting is in the first instance important in a general way as the means by which the discourses of strategy and marketing get implemented. But further, we can see why a form such as ABC could have become so significant in this sector, given the kind of marketing-led strategy being pursued so widely. However, that poses a major organisational problem, as the new accounting required is such a long way from the traditional form of internal accounting systems and practices with which bank employees had typically been familiar. There is not simply an issue here of introducing a new form of accounting technology that will meet the demands of the marketing-led strategy. There is an issue of unlearning an allegiance to old practices, or perhaps learning how to align the old and the new. This is not a straightforward process.

Confronting this kind of situation, one can appreciate Miller's (1994:1-5) claim that accounting has to be regarded as a *social and institutional practice* with three complementary dimensions. First, accounting as a technology is a device for acting upon activities, and providing visibility to events and processes. Both the 'old' and ‘new’ modes of accounting here operate in this dimension. But secondly, he argues, accounting includes discourse representations and vocabularies. These rationales

> ‘come to constitute truths in the name of which organizations are to be remade, processes reconfigured, and attempts made to redefine the identity of individuals. Once established, these truths come to be taken as essential for the proper government of economic and social life’ (p.4).

In this respect, there is arguably one kind of ‘truth’ represented by the old style of budget-focussed accounting in the bank, which has a stewardship kind of concern which can primarily ensure that there is an equitable and efficient allocation of available resources, given the current strategy (whatever that may be). Such a model can year on year track the use of resources and report back on them, and serve to validate a given strategy, particularly so long as that strategy remains valid for successive periods.

But such an accounting is very poor at dealing with a world where strategies have to change, as competitors compete away short-term advantages rapidly. In this context, the need is for a more proactive and immediate understanding of the costs of internal activities and of the products and services supported by them, so that informed decisions about possible changes in strategy can be made swiftly. Here a different kind of accounting ‘truth’ begins to obtain, which requires a set of practices that will meet the above criteria. ABC articulates such a ‘truth’, in a much better way than traditional budget-focussed accounting, as it makes visible internal activity costs. It is similarly superior at providing numbers that ‘you can trust’ (as the research and consultancy rhetoric has it) concerning product/service costs. Again, traditional overhead allocation models are simply very poor at this game. So the *logic* of ABC, as Piper and Walley (1991) argued, may remain questionable. But as an accounting ‘truth’, in a world where the financial sector has altered in such a way that marketing-led strategy discourse is king, it dominates older accounting truths.

In this way, accounting discourse can operate significantly in a third dimension, that of shaping the whole way that the ‘economic domain’ is conceptualised and articulated. Miller’s thesis here is that accounting provides ways to constitute and reconstitute the economic domain by the changing calculative practices that provide the basis for knowing ‘economic reality’.

> ‘By transforming the physical flows of organizations into financial flows, accounting creates a particular realm of economic calculation of which judgements can be made, actions taken or justified, policies devised, and disputes generated and adjudicated’ (p.4).

The particular point here is that, if accounting in general has these effects, the particular kind of accounting encapsulated in ABC creates a distinctive version of the ‘realm of economic calculation’, and thereby produces particular kinds of judgements, actions, policies and disputes, while also providing the calculative means of evaluating decisions, adjudicating disputes, etc.[5]

The articulation of this new kind of ‘truth’ can be observed in Banco Lusitano, as

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[5] The general argument is similar to that made in Hopwood (1990), which also emphasises the diverse but related roles of accounting in: (1) creating visibility in the organisation; (2) functioning as a calculative practice; and (3) playing an active part in creating a domain of economical action.

accounting information can be seen to be moderating managerial vocabularies, and changing the conception of what is important and what is not. For instance, at a range of levels in the bank, the cost to income ratio became newly significant as a key target that was referred to as 'precise' and 'objective'. More generally, the vocabulary of business, efficiency, profitability, financial strength, international expansion and organisation became the basis on which claims of 'excellent progress' were made. In this discursive context the consultancy discourse of ABC fits perfectly. ABC can be made to appear to respond to this new realm and to create just the sense of alignment with the new strategic vision that will promote the new climate of change in the bank. The following extracts from one of the first Consultancy Reports for the ABC project illustrate this perfectly:

> 'It is expected that ABC techniques will be applied in the near future in the bank, similar to what is happening in the international banking sector. The main reason for the use of ABC is the need to evaluate the performance of the operations in a dynamic environment, for which the traditional accounting tools are less efficient. This performance is measured by the costs of activities consumed by certain cost objects.
>
> The only way to keep or increase the profitability of the bank is through cost reduction, and the increase of the offer of value-added services to its customers in terms of quality, time response or innovation. To reach higher profitability it is fundamental to eliminate activities that do not increase the value added to customers.
>
> To monitor the performance of the bank and to support decision-making, it is necessary to have information about cost, quality and time measures at the bank, team and individual levels.
>
> Information about costs should: (1) provide the current position; (2) support the identification of the causes of inefficiency; (3) measure the efficacy of short-term actions to solve inefficiencies; and (4) display the existing range of similar and repetitive activities. It will be necessary to adopt a costing methodology that will capture this information for any cost objects that management needs to analyse or measure, such as customers, services or products' (Consultancy Reports: ABC Project).

Thus we can see how far the kind of analysis made by Hopwood (1990), Miller (1994) and with reference to ABC by Ezzamel *et al*. (1990), is borne out in this banking context, regarding the accounting role. Accounting can be seen at the heart of what gets said, influencing perceptions, changing vocabulary and infusing the dialogue that circulates both formally and informally, because the concepts expressed in ABC discourse 'make sense' for actors within the bank. Secondly, it makes new profitability and customer-oriented issues visible, while older concerns focussed on budgets and internal procedures recede from view. In this way, it is easier for top management to convince employees of the importance of the change initiatives that are going on. Thirdly, it provides a 'legitimisation' of job losses, presenting them as inevitable to the bank's adaptation to the evolving competitive environment (which is now defined as the European Union and global). In this range of ways, accounting plays a key role in re-shaping the everyday reality of employees, making it inescapable for the 'lucky' remaining employees, and all the new hires brought in to make the new vision work, that they must accept (whether reluctantly or with enthusiasm) the new performance goals.

Finally, we can also suggest that accounting contributes to promoting an image of being modern and well-managed that can be grasped and shared across different bank levels, even when there is scepticism about how well it is being realised. So a manager from the organisation department, after claiming that top management does not support ABC because they do not see efficiency as a key issue, modifies his statement, drawing on the 'image' metaphor:

> 'Probably I am giving a negative image of the top management of the bank, and those responsible for its strategy. They are aware of the efficiency problem. After all, it was considered more than two years ago a strategic issue. Therefore, we are all conscious of the problems over competition and margin reduction, and that we cannot rest on the laurels given by the bank's past profits, we all have to realise that is no guarantee of continued success. It is just that there has been priority given to other areas'.

To sum up, it is apparent that discourses of strategy, marketing and accounting are all circulating out there and so have migrated into the banking sector, with not insignificant help from consultant companies. It is apparent that within Banco Lusitano, as elsewhere, the discourse and practices of accounting have significant roles to play, with an increasing presence of the ABC type of approach under the current form of marketing-led strategy. A new kind of managerial culture can be celebrated as a result, as one more extract from the 1999 Annual Report and Accounts confirms:

> 'The Group's mission is to extend to its clientele – private and corporate clients as well as institutional clients – a high degree of satisfaction by providing financial services that meet the market's ever-growing requirements in terms of information and sophistication.
>
> In addition to our institution's GROWTH, the strategic goals defined privilege its transformation into the BEST and MOST PROFITABLE Financial Group operating in Portugal. Hence, and although the creation of value for the shareholders constitutes a basic concern, the interests of both customers and employees are also duly taken into account' (Report and Accounts, 1999, original emphasis).

In such statements accounting is no longer present simply in the back office functions with which it is traditionally identified, the financial and management accounting systems and practices used to run the old-style budget-focussed approach and to generate the financial reports. Accounting is both different technically, it is more visibly present in the formal discourse and strategic plans of top management, and it is circulating as part of a new kind of management discourse in the organisation.

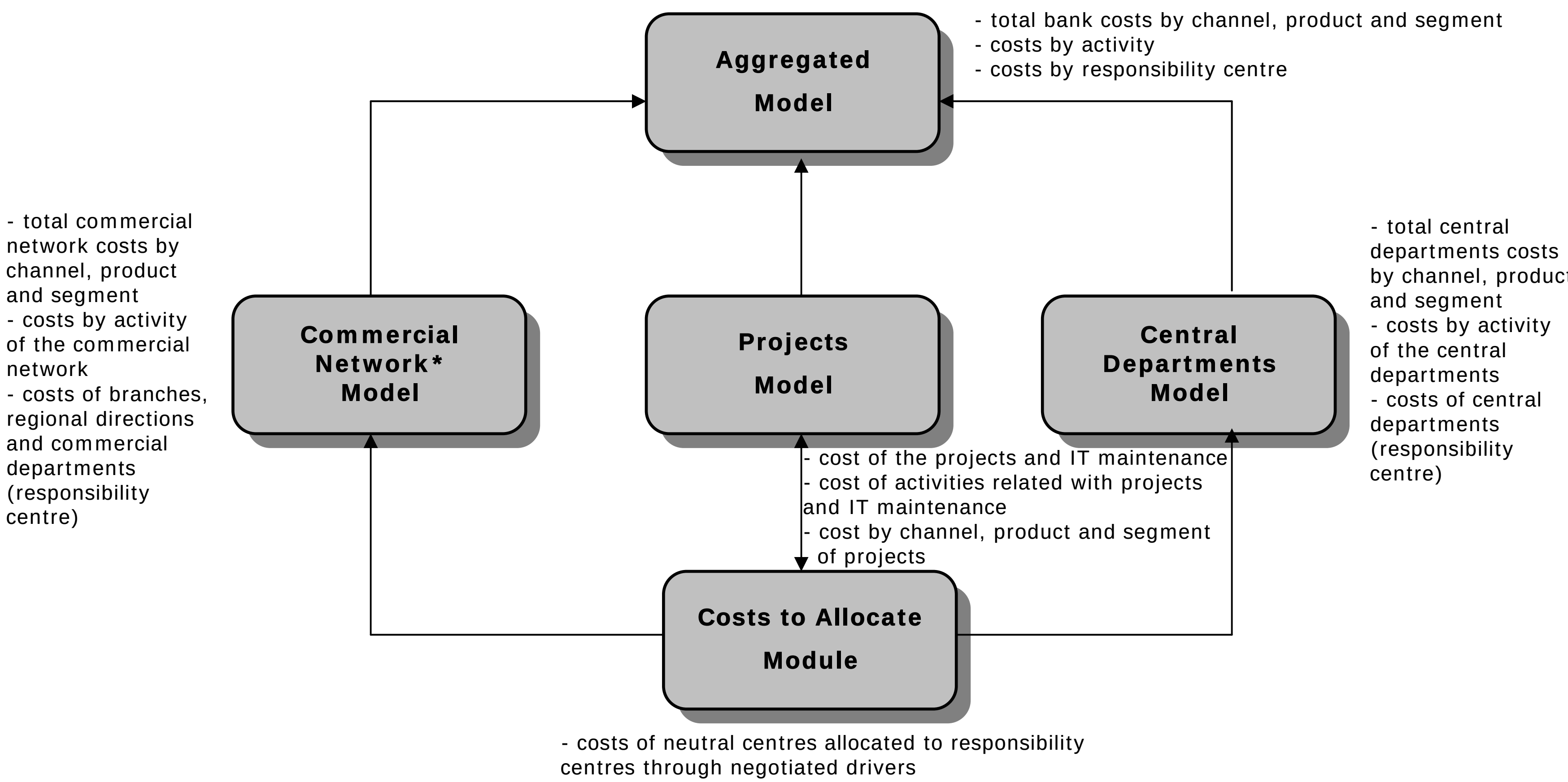
7. Conclusions

The main contribution of this research is related to the increase in the visibility and perceived importance of accounting in this particular bank. As the organisation has changed, accounting has become more significant. Since the re-privatisation, and more specifically over the period when the ABC initiative was being promoted and developed, accounting becomes more visible in the organisation and so perceived, at the level of what people say and write, as important to it. The research shows how, with the arrival of ABC, what becomes sayable internally includes alongside the two 'obvious' discourses of strategy and marketing, a new kind of extensive and intensive accounting discourse. The discourses of strategy, marketing and accounting 'migrated' into the banking sector, in particular over the last decade, with consultants having a key role in this process. Discursively, accounting permeates the organisation, alongside and inside marketing and strategy discourse. Measures of accounting, such as the ratio of cost to income, are crucial as, for instance, strategy uses them (intensive significance). 'Old' accounting is still out there but now it is more than that (extensive significance). It makes new profitability and customer-oriented issues visible, while other concerns focussed on budgets and internal procedures recede from view. From the traditional roles, preparation of external reports and preparation of the budget, accounting is migrating outside the accounting department, for instance through the SOI, and specially with the development of the new MIS that includes the ABC system (see figure 2, next page). The impact of the ABC initiative was to produce, as an unintended consequence, a general visibility and significance for all forms of accounting in use. As the unit of analysis changed from branches to products, customers and distribution channels, a range of performance measurement and accountability practices became more essential and inevitable. New MAS needed to be developed in order to work with the new managerial reality.

The study provides new insights into how management accounting practices and discourses, along with other organisational systems, play an important role questioning, visualising, analysing, and measuring implemented strategies. These practices and discourses have an important influence on strategic decision-making, and help to legitimise action. As the language and practice of management have shifted towards strategy and marketing discourses, patterns of work, organisation and career are being restructured. There was a transformation from a bank culture based on relative job security and, for some, hierarchical careers, to another based more on the strategic marketing discourse of interpersonal customer-orientated skills with individual performance. Task redefinition was another consequence, associated with the use of new technologies and the increasing range of services offered. There was a strongly felt sense of rapidly changing employment practices, as an IT manager explains ‘things are changing fast and there are people that adapt easily, while others have difficulties in terms of adaptation’. Consequently, there are tensions and a feeling of insecurity inside the bank. Tensions, for instance, between the branch network and central departments, and between staff with experience and a young, flexible and more educated generation. Redundancies, IT innovations, and several change initiatives undermined the sense of employment security that was a central aspect of the Portuguese banking culture.

There is an increased appreciation of the importance of accounting, since it is significant beyond its technical roles. Accounting is increasingly important in the ‘doing’ of management generally, including strategy and marketing. Accounting is contestable for it is a means of distributing new modes of acting and thinking/speaking across the organisation. Cost and resource levels become areas of conflict and debate (this is not necessary the same, since debate is not always conflictual). New discourses of value (e.g. in terms of value added) can be mobilised even as it becomes clear that precise measures of value added or profitability remain elusive or the subject of dispute.

Figure 1 – Structure of activity based costing project



* Commercial network includes branches, regional directions and commercial departments.

Source: Consultancy Reports (ABC Project)

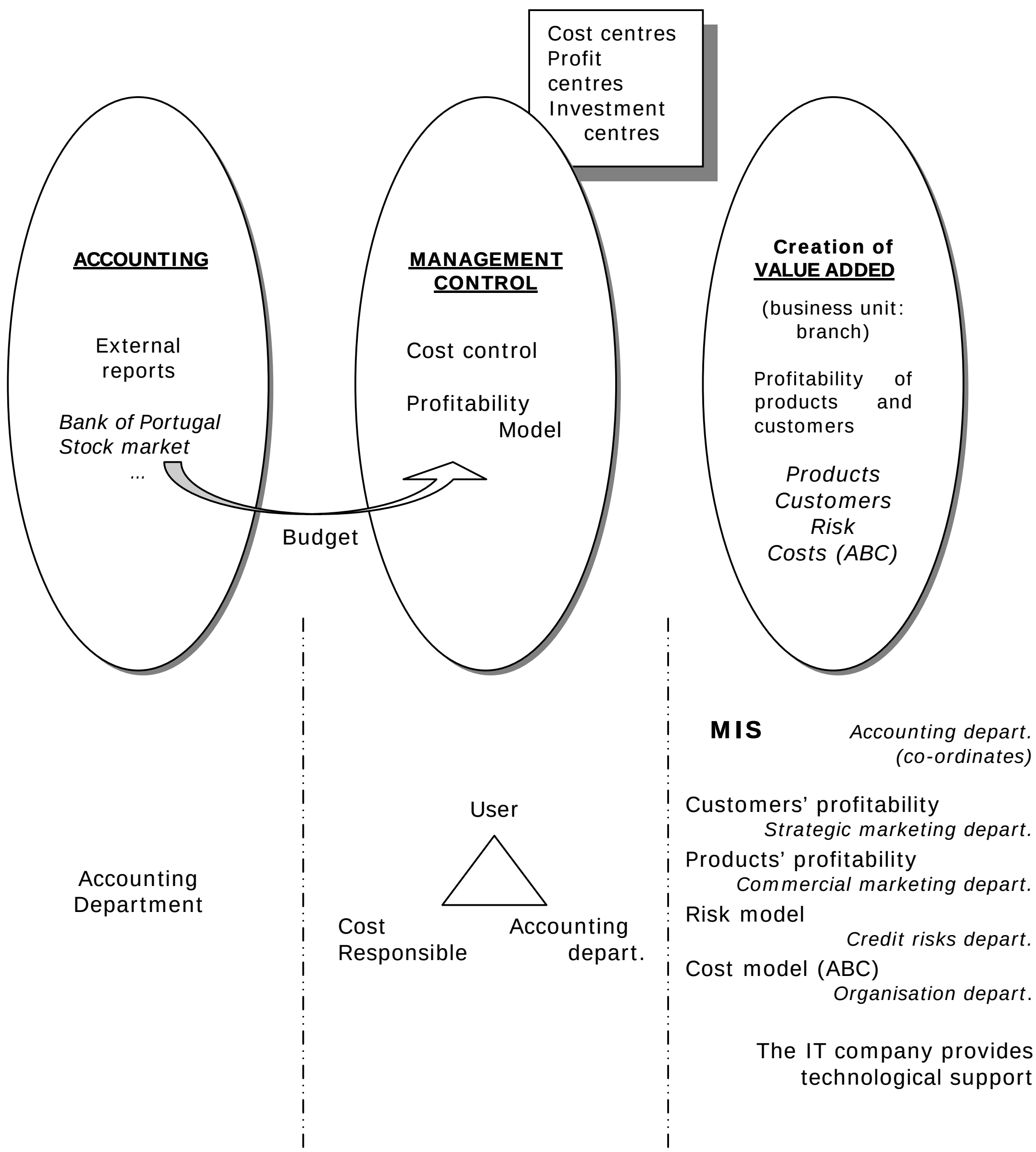


Figure 2 – Evolution of the role accounting plays in the bank

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